

**UNITED NATIONS
DEVELOPMENT
PROGRAMME**



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DP/PROJECTS/7041

ENGLISH

**APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF THE
DOMINICAN REPUBLIC**

IPF: (1987-91) \$ 8 360 000

(DOM/90/008) - Implementation of the Fiscal Reform

Date of approval by the AC:^{1/}
Expected duration:
Proposed executing agency:
Government implementing agency:

17 April 1991
Two years
Government
Secretaria de Estado de Finanzas through
the following departments: Direccion
General de Aduanas; Direccion General de
Rentas Internas; Direccion General de
Impuesto Sobre la Renta
\$ 3 212 100 Source of funds: IPF
\$ 900 000
\$ 500 000 Source of funds: MDP
\$ 4 612 100

Proposed UNDP contribution:
Government cost sharing:
Third-party cost sharing:
Total UNDP budget:

Project background

The Dominican Republic is facing a fiscal crisis that threatens to undermine economic stability and thwart development and growth. The prospect of lower nickel prices and continued domestic inflation portends a further erosion of public sector revenue in 1991. Over the past three years, the gap between government needs and tax revenue has been made up through inflationary monetary policy, encouraging capital flight and therefore further hindering development over the longer run. UNDP has been supporting the Government in the formulation and implementation of development policies for economic recuperation, within the framework of the Government's Structural Adjustment Programme. In this context, this project is one of the central instruments for the Government in realizing the profound structural changes under the mentioned Programme, of which the fiscal reform is crucial for its success. The project is therefore addressing the modernization of the Dominican tax administration in support of the implementation of an overall tax reform, and covers the five principal areas of taxation: customs tariffs, income tax, value-added tax, excise tax, and property tax; and will be implemented by each of the corresponding tax collection and administration departments involved, under the general co-ordination of the Ministry of Finance.

^{1/} This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

Description of project

The development objectives of the project are to: (a) improve the effectiveness of revenue collection authorities in the Dominican Republic; (b) reduce compliance costs for individuals and business; and (c) generate greater certainty and equity in the application of tax codes. Simplicity and straightforward implementation of tax regulations are central to sustaining a stable tax system and buoyant government revenues. Increased revenue will enhance the government's ability to mobilize resources for development, and will assist in reducing inflation that retards domestic savings, and thus development.

The immediate objectives according to the five principal areas of taxation addressed by the project: customs tariffs, income tax, value-added tax, excise tax and property tax are to: (a) improve the administration of customs duties collection, the income tax system, the value added tax system; (b) strengthen the excise tax structure and administration; and (c) develop a property tax administration. Project activities will include: (a) strengthening of organizational structures; (b) computerization or upgrading of information management; (c) measuring for the improvement of terms and conditions of work to address the problems of a turnover, skills, capacity and integrity; and (d) training of personnel.

It should be emphasized that the reform must be seen and implemented as an integrated programme in order for its components to reach the desired result.

Inputs

UNDP will provide 48 man-months for an international tax advisor; 48 man-months for a customs advisor; 4 man-months for a consultant on customs value, 48 man-months for an international property tax advisor; administrative support; a subcontract for a total of 96 man-months for short-term consultancies of experts in all the areas of tax reform, covered by this project, group training of local staff and three study tours; vehicles, computers and technical equipment; and miscellaneous costs.

Financial data

	\$
Personnel	883 600
Subcontract	2 414 500
Training	369 000
Equipment	835 000
Miscellaneous	110 000
Total	<u>4 612 100</u>

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